

SWEDEN

The Department of State submitted this report to the Senate Committees on Foreign Relations and on Finance and to the House Committees on Foreign Affairs and on Ways and Means, on January 31, 1999.

Key Economic Indicators
(Billions of U.S. Dollars unless otherwise noted)

	1996	1997	1998	1/
<i>Income, Production and Employment:</i>				
Nominal GDP 2/	252.0	227.6	231.5	
Real GDP Growth (pct) 3/	1.3	1.8	3.0	
GDP by Sector:				
Agriculture	1.6	1.5	1.5	
Manufacturing	51.2	47.5	47.0	
Services	106.1	98.4	97.5	
Government	48.5	45.0	44.5	
Per Capita GDP (US\$) 2/	28,319	25,724	26,162	
Labor Force (000's)	4,310	4,264	4,255	
Unemployment Rate (pct)	8.1	8.4	6.6	
<i>Money and Prices (annual percentage growth):</i>				
Money Supply (M3) 4/	11.5	1.3	2.1	
Consumer Price Inflation	0.8	0.9	0.5	
Exchange Rate (SEK/US\$)	6.70	7.63	7.93	
<i>Balance of Payments and Trade:</i>				
Total Exports FOB 5/	84.5	83.5	95.6	
Exports to U.S. 6/	7.0	7.5	8.0	
Total Imports CIF 5/	66.6	65.4	73.7	
Imports from U.S. 6/	3.9	4.0	4.3	
Trade Balance 5/	17.9	18.1	21.8	
Balance with U.S. 6/	3.1	3.5	3.7	
External Public Debt 7/	59.5	50.5	46.7	
Fiscal Balance/GDP (pct)	-2.1	-1.1	2.1	
Current Account Surplus/GDP (pct)	2.6	2.8	2.3	
Foreign Debt Service Payments/GDP (pct)	1.48	1.89	2.90	
Gold and Foreign Exchange Reserves	20.9	11.8	16.1	

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Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

1/ 1998 figures are all estimates based on available monthly data in October.

2/ Decrease due to depreciation of currency.

3/ Percentage changes calculated in local currency.

4/ Source: The Central Bank. M3 is the measurement used in Sweden, very close to a potential Swedish M2 figure.

5/ Merchandise trade.

6/ Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1998 figures are estimates based on data available through October.

7/ Source: Swedish National Debt Office.

1. General Policy Framework

Sweden is an advanced, industrialized country with a high standard of living, extensive social services, a modern distribution system, excellent transport and communications links with the world, and a skilled and educated work force. Sweden exports a third of its Gross Domestic Product (GDP) and is a strong supporter of liberal trading practices. Sweden became a member of the European Union (EU) on January 1, 1995, by which point it had already harmonized much of its legislation and regulation with the EU's as a member of the European Economic Area.

Sweden uses both monetary and fiscal policy to achieve economic goals. Active labor market practices also are particularly important. The central bank enjoys significant autonomy in pursuit of its avowed goal of price stability. Fiscal policy decisions in the late 1980's to lower tax rates while maintaining extensive social welfare programs swelled the government budget deficit and public debt, most of which is financed domestically. Since the beginning of 1995, however, Sweden has made impressive strides with its economic convergence program, having restored macroeconomic stability and created the conditions for moderate, low-inflation economic growth. The government intends to run budget surpluses for the foreseeable future in order to assure that the public pension system and other aspects of the welfare state are adequately funded in the face of expected demographic changes.

During 1995 and 1996, Sweden pulled out of its worst and longest recession since the 1930s. (GDP declined by six percent from 1991 to 1993). Only recently has the level of unemployment come down somewhat, from average figures as high as 12 to 14 percent in the mid-1990s, now down to around 10 to 11 percent. (Swedes quote two unemployment figures, open and "hidden." "Hidden" unemployment, those in government training and work programs, accounts for some 4 percentage points of total unemployment.) In 1992 the Swedish Krona came under pressure and was floated late that year; Swedish interest rates soared but have come down rapidly during 1996-1998, and are now around half a percentage point above German rates.

Sweden's export sector is strong, resulting in large trade balance surpluses and solid current account surpluses since 1994. Domestic demand started to pick up in 1997 and has contributed to the growth since 1997. Structural changes in recent years have prepared the way for future economic growth. The social democratic government at the end of the 1980's and the conservative coalition government at the beginning of the 1990's deregulated the credit market; removed foreign exchange controls; reformed taxes; lifted foreign investment barriers; and began to privatize government-owned corporations.

2. Exchange Rate Policies

From 1977 to 1991, the krona was pegged to a trade weighted basket of foreign currencies in which the dollar was double weighted. From mid-1991, the krona was pegged to the ECU. Sweden floated the currency in November 1992 after briefly defending the krona during the turbulence in European financial markets. Although Sweden is an EU member, it has chosen not to join the European Monetary Union and does not currently participate in the European Exchange Rate Mechanism.

Sweden dismantled a battery of foreign exchange controls in the latter half of the 1980's. No capital or exchange controls remain. (The central bank does track transfers for statistical purposes.)

3. Structural Policies

Sweden's tax burden was 54.8 percent of GDP for 1998. Central government expenditure during the recent severe recession was nearly 75 percent of GDP. The maximum marginal income tax rate on individuals is 59 percent. Effective corporate taxes are comparatively low at 28 percent, though social security contributions add about 40 percent to employers' gross wage bills. The value-added tax is two-tiered, with a general rate of 25 percent and a lower rate of 12 percent for food, domestic transportation, and many tourist-related services.

Trade in industrial products between Sweden, other EU countries, and EFTA countries is not subject to customs duty, nor are a significant proportion of Sweden's imports from developing countries. When Sweden joined the EU, its import duties were among the lowest in the world, averaging less than five percent ad valorem on finished goods and around three percent on semi-manufactures. Duties were raised slightly on average to meet the common EU tariff structure. Most raw materials are imported duty free. There is very little regulation of exports other than military exports and some dual use products that have potential military or non-proliferation application.

Sweden began abolishing a complicated system of agricultural price regulation in 1991. Sweden's EU membership and consequent adherence to the EU's common agricultural policy has brought some re-regulation of agriculture.

4. Debt Management Policies

Central government borrowing guidelines require that most of the national debt be in Swedish crowns; that the borrowing be predictable in the short term and flexible in the medium term; that the government (that is, the Cabinet) direct the extent of the borrowing; and that the government report yearly to the parliament.

Sweden's Central Bank and National Debt Office have borrowed heavily in foreign currencies since the fall of 1992, increasing the central government's foreign debt five-fold to about a third of the public debt. Management of the increased debt level so far poses no problems to the country, but interest payments on the large national debt grew rapidly in the early 1990's. Total debt in late 1998 is about 73 percent of GDP.

5. Significant Barriers to U.S. Exports

Sweden is open to imports and foreign investment and it campaigns vigorously for free trade in the World Trade Organization (WTO) and other fora. Import licenses are not required except for items such as military material, hazardous substances, certain agricultural commodities, fiberboard, ferro alloys, some semi-manufactures of iron and steel. Sweden enjoys licensing benefits under section 5(k) of the U.S. Export Administration Act. Sweden makes wide use of EU and international standards, labeling, and customs documents in order to facilitate exports.

Sweden has harmonized laws and regulations with the EU's. Sweden is now open to virtually all foreign investment and allows 100 percent foreign ownership of businesses and commercial real estate, except in air and maritime transportation and the manufacture of military materiel. Foreigners may buy and sell any corporate share listed on the Stockholm Stock Exchange. Corporate shares may have different voting strengths.

Sweden does not offer special tax or other inducements to attract foreign capital. Foreign-owned companies enjoy the same access as Swedish-owned enterprises to the country's credit market and government incentives to business such as regional development or worker training grants.

Public procurement regulations have been harmonized with EU directives and apply to central and local government purchases in excess of ECU 400,000. Sweden is required to publish all government procurement opportunities in the European Community Official Journal. Sweden participates in all relevant WTO codes concerned with government procurement, standards, etc. There are no official counter-trade requirements.

6. Export Subsidies Policies

The government provides basic export promotion support through the Swedish Trade Council, which it and industry fund jointly. The government and industry also fund jointly the Swedish Export Credit Corporation, which grants medium and long-term credits to finance exports of capital goods and large-scale service projects.

Sweden's agricultural support policies have been adjusted to the EU's common agricultural policy, including intervention buying, production quotas, and increased export subsidies.

There are no tax or duty exemptions on imported inputs, no resource discounts to producers, and no preferential exchange rate schemes. Sweden is a signatory to the GATT subsidies code.

7. Protection of U.S. Intellectual Property

In most cases, Swedish law strongly protects intellectual property rights having to do with patents, trademarks, copyrights, and new technologies. The laws are generally adequate and clear. However, enforcement is not as strong as it should be, especially in the area of copyright protection for software. The police and prosecutors need additional resources, some specialized training to help with acquiring and preserving evidence, and clear signals from the top of the government that copyright protection is a real priority, especially within Swedish public sector organizations. In addition, Swedish law poses a problem for copyright owners by permitting government ministries and parliament to provide to the public copies of works that may be unpublished and protected by copyright law.

The courts are efficient and honest. Sweden supports efforts to strengthen international protection of intellectual property rights, often sharing U.S. positions on these questions. Sweden is a member of the World Intellectual Property Organization and is a party to the Berne Copyright and Universal Copyright Conventions and to the Paris Convention for the Protection of Industrial Property, as well as to the Patent Cooperation Treaty. As an EU member, Sweden has undertaken to adhere to a series of other multilateral conventions dealing with intellectual property rights.

8. Worker Rights

a. The Right of Association: Laws protect the freedom of workers to associate and to strike, as well as the freedom of employers to organize and to conduct lock-outs. These laws are fully respected. Some 83 percent of Sweden's work force belongs to trade unions. Unions operate independently of the government and political parties, though the largest federation of unions has always been linked with the largest political party, the Social Democrats.

b. The Right to Organize and Bargain Collectively: Labor and management, each represented by a national organization by sector, negotiate framework agreements every two to three years. More detailed company agreements are reached locally. The law provides both workers and employers effective mechanisms, both informal and judicial, for resolving complaints.

c. Prohibition of Forced or Compulsory Labor: The law prohibits forced or compulsory labor, and the authorities effectively enforce this ban.

d. Minimum Age for Employment of Children: Compulsory nine-year education ends at age 16, and the law permits full-time employment at that age under supervision of local authorities. Employees under age 18 may work only during daytime and under supervision. Union representatives, police, and public prosecutors effectively enforce this restriction.

e. Acceptable Conditions of Work: Sweden has no national minimum wage law. Wages are set by collective bargaining contracts, which non-union establishments usually observe. The standard legal work week is 40 hours or less. Both overtime and rest periods are regulated. All employees are guaranteed by law a minimum of five weeks a year of paid vacation; many labor contracts provide more. Government occupational health and safety rules are very high and are monitored by trained union stewards, safety ombudsmen, and, occasionally, government inspectors.

f. Rights in Sectors with U.S. Investment: The five worker-right conditions addressed above pertain in all firms, Swedish or foreign, throughout all sectors of the Swedish economy.

**Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad
on an Historical Cost Basis -- 1997**

(Millions of U.S. Dollars)

Category	Amount
Petroleum	82
Total Manufacturing	5,082
Food & Kindred Products	29
Chemicals & Allied Products	(1)
Primary & Fabricated Metals	6
Industrial Machinery and Equipment	306
Electric & Electronic Equipment	36
Transportation Equipment	(1)
Other Manufacturing	(1)
Wholesale Trade	166
Banking	0
Finance/Insurance/Real Estate	989
Services	934
Other Industries	46
TOTAL ALL INDUSTRIES	7,299

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.